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C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000747

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DEPT PLEASE PASS TO EX-IM KENNETH VRANICH, RICHARD BRACKLEY, THOMAS F. MATTHIAS, AND BERT C. UBAMADU
DEPT OF TREASURY PLEASE PASS TO SONJA RENANDER

E.O. 12958: DECL: 05/19/2015
TAGS: EFIN ECON EINV PGOV PREL NI
SUBJECT: CBN'S NEW CAPITALIZATION DEADLINES CAUSE BANKS TO PICK UP THEIR PACE

Classified By: Consul General Brian Browne for reasons 1.4 (b) and (d).

¶1. (C) Summary. Eschewing prior consultation with the industry, the Central Bank of Nigeria (CBN) unexpectedly promulgated a new set of deadlines to spur banks to meet its recapitalization requirement: April 30 for pre-merger consent, August 31 for preliminary merger approval, and October 31 for merger final approval. Nigeria's banks were moving at their own pace to meet the December 31 naira 25 billion recapitalization requirement but the CBN felt many banks were footdragging. Banks were given a month to meet the April deadline, hastening a spate of bank merger announcements. Further clouding the air, bankers are uncertain about the consequences of failing to meet these interim CBN deadlines. Moreover, bankers kept telling us that few of them are keen on merging and that the forced march toward consolidation is fraught with major uncertainties from the standards for valuation of bank assets to the hidden operational costs associated with mergers. End summary.

¶2. (U) On March 31, the Central Bank of Nigeria (CBN) made a rather Delphic announcement setting new interim deadlines for banks on their way to meet the naira 25 billion (USD 192 million) recapitalization requirement. The new timetable is: pre-merger consent by April 30, merger approval-in-principle by August 31, and final approval by October 31. Banks have five days after each deadline to submit their plans (actual deadlines: May 5, September 5, November 5) Previously, banks were allowed to move at their own pace in merger negotiations as long as the naira 25 billion mark was reached at year's end. However, the CBN clearly was dissatisfied with the pace the mergers were being accomplished.

¶3. (C) Spurred by the CBN's new deadlines, more serious merger discussions took place in April than in the preceding eight months since the CBN set the recapitalization goal. As a result, new merger announcements include: 1) Union Bank acquiring or merging with Broad Bank, Gulf Bank, Universal Trust Bank, Union Merchant Bank, 2) First National Bank will emerge from a merger between Centerpoint Bank, First Interstate Bank, Intercity Bank, Liberty Bank, Pacific Bank, and Tropical Commercial Bank -- most of these are perceived to have northern Nigeria affiliations, 3) Access Bank merging with Capital Bank and Marina Bank, 4) Afribank with New Nigerian Bank (NNB) and FSB International Bank, 5) Reliance Bank to merge with foreign investors, 6) First City Monument Bank, Cooperative Development Bank, NUB International Bank, and Societe Bancaire, 7) Equitorial Trust Bank and Devcom Bank, 8) Indo-Nigerian Bank and NAL Bank, and 9) Investment Banking and Trust Company (IBTC) and Bond Bank.

¶4. (C) Capital Bank Managing Director, Seyin Ayida, acknowledged that the CBN's new rules sped his bank's announcement to merge with Access Bank and Marina Bank. He said their partnering was only three weeks in the making, but the CBN's edict called for quick decisions. Capital Bank's original plan was to meet the N25 billion goal raising capital on its own. Since Capital, Access, and Marina Banks have been talking, Ayida said, he has been "stretched beyond" his limits, working endless hours with unfamiliar legal material. Other merging banks are likely experiencing the same discomforting sensation of venturing into territory heretofore uncharted by members of the Nigerian banking sector.

¶5. (C) Merger pains include a valuation predicament. Bankers want merging or acquisition partners to be valued low in order to get a good deal, but once the merger is effectuated, want partners' assets to be valued high enough to guarantee the merger meets the naira 25 billion capitalization goal. Other pains include ambitious MDs and board members who will have a tough time stepping down from high-level positions, and technical issues such as integrating computer systems.

¶6. (C) Bank Managing Directors (MDs) say the CBN is not providing the promised technical assistance to help banks struggle through the merging process. The few Nigerian bank

MDs who have merger or acquisition experience, such as Investment Banking and Trust Company (IBTC)'s Atedo Peterside, understand the arduousness of the process and relate that the due diligence process alone usually takes 18 months. Given the CBN's short deadline for recapitalization-led mergers, banks complain the CBN should be doing more to assist them. The Monetary and Fiscal Policies subcommittee of the Bankers' Committee recently proposed several ideas to assist banks: CBN refunds for the cost of raising funds through public offers, IPOs, and private placements; intensified monitoring of bank consolidation; "facilitation" of the consolidation process (no specific recommendations made); create and publicize enhanced guarantees for depositor funds; and a working CBN help desk for merger questions and problems, and for questions regarding merger incentives. (Note: The Bankers' Committee is open to all bank MDs and the CBN governor. Its Monetary and Fiscal Policies subcommittee meets monthly to discuss recent economic factors and their effects on the banking sector. The subcommittee often releases recommendations to the CBN.) The CBN has not responded to these proposals.

¶7. (C) Managing Directors from Bond Bank, Capital Bank, Ecobank, Fidelity Bank, IBTC, and the President of the Chartered Institute of Bankers of Nigeria, who attended a dinner at the Consul General's residence on April 28, discussed the abruptness of, and motivations behind, CBN decisionmaking. The CBN has not clearly stated its purpose in raising the capitalization requirement to naira 25 billion, beyond having fewer, larger banks to "strengthen" the banking sector. Interlocutors believe the CBN move is partly to punish bankers, long-vilified under the perception that they are tools for profiteering and diverting funds overseas for the benefit of an elite few.

¶8. (C) The GON plays on the public's general ignorance of banking mechanics by fostering sentiment that bankers do not want to help Nigerian consumers, manufacturers and industries. Some bankers also believed that financial sector reform was being pushed because it did not materially affect President Obasanjo's elite allies. they claimed that most of Obasanjo's monied cronies were wealthy businesspeople and politicians. Thus, reforming the financial sector would not bruise their interests but would give the facade of reform to the Nigerian public and outside world. Conversely, in the economic sectors where Obasanjo's allies are focused, reform is not progressing. Instead, bans and tariffs protecting the special interests of Obasanjo's elite friends are the order of the day, bemoaned the bankers. The consequences for banks who do not meet the deadlines are not known. CBN has not made public its intent but industry rumors are that noncompliant bank names will be publicized. To date, non-compliant banks have not been cited by the CBN, though 20 banks have not publicized their plans leading industry watchers to speculate whether they have met the CBN deadline. Meanwhile, the CBN has not mentioned any bank names, but it announced it will write off 80 percent of bad debts owed it by 13 of the weakest banks, estimated at about naira 72 billion (about USD 550 million), thereby making those banks more attractive for acquisition. The terms and conditions for these write-off loans are stringent, however, and few banks are expected to be able to take advantage of the write off. With no apparent negative repercussions two weeks after the April 30 deadline, a CBN strategy of helping troubled and non-compliant banks to ease out of sight via acquisition seems to be taking form. The approach may save the sector from panic or distress.

¶9. (C) Bankers stated the CBN will help out banks that come close to the naira 25 billion goal but cannot quite make it by December 31. The help is expected to come in the form of additional incentives or offers to merge with smaller banks to help banks acquire the extra capitalization needed to meet the requirement. Additionally, the CBN has given bank MDs the impression it will allow new serious merger announcements to be made beyond the April, August, and October deadlines, so long as banks are in compliance with CBN regulations for consolidation.

¶10. (C) So far, bankers do not believe the recapitalization effort is enabling banks to offer more services to the average Nigerian, as it was intended to do. For example, Ayida asserted banks not able to finance small and medium size enterprises during the recapitalization period because funds are too tight. Banks are spending time and money shoring up capital bases and focusing only on the largest and most profitable financing. He said some small business borrowers have had to stop commercial activities because of insufficient financing. Banks are even stalling compliance with the GON Small and Medium Industries Equity Investment Scheme (SMIEIS) initiative for Nigerian banks to set aside ten percent of profits for small and medium size business investments. At least in the short term, the capitalization requirement has undermined another key objective of banking sector reform, that of providing more services to small and

medium sized firms.

¶11. (C) Comment. CBN Governor Soludo and others say the recapitalization is part of the GON's overall economic reform plan. Yet, curiously, reforms in the banking sector have been fast-tracked while needed reforms in other areas such as trade policy and infrastructure lag. The difference in pace could be conscious. Perhaps the GON has determined that financial reform is the essential first step toward overall economic reform and growth. Or perhaps, as one of our interlocutors suggested, financial reform is getting more emphasis than it deserves chiefly because Obasanjo appointed top-flight personalities such as Ngozi Okonjo-Iweala, Minister of Finance, and Charles Soludo, CBN Governor in this sector. Meanwhile, political appointees with little interest in reforms dominate the other economic portfolios. Regardless of the factors underlying the push toward financial sector reform, the newest round of deadlines for the capitalization requirement has startled the banks and will cause them to accelerate their game plans for compliance with the requirement. End comment.
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